

TESTIMONY

OF

DAVID M. LANEY, ESQ.
CHAIRMAN, AMTRAK BOARD OF DIRECTORS

BEFORE THE

SUBCOMMITTEE ON RAILROADS

OF THE

HOUSE COMMITTEE ON
TRANSPORTATION AND INFRASTRUCTURE

10:00 a.m.
WEDNESDAY, SEPTEMBER 21, 2005
2167 RAYBURN HOUSE OFFICE BUILDING

Mr. Chairman and Members of the Committee, thank you for the opportunity to testify at this hearing.

Today I would like to discuss Amtrak's Strategic Reform Initiatives (SRI) that Amtrak transmitted to Congress and the Administration on April 21 of this year. The reforms set forth in this plan have helped shape the discussion on the future of Amtrak and intercity rail passenger service and we have sent a clear message that we embrace change.

Results

We, on the Board of Directors, take our responsibility to provide strong vision and leadership to the management of the company very seriously and we have demonstrated this through the development and implementation of the SRI. As Congress begins to grapple with Amtrak and intercity passenger rail reform, I want to reassure you that we will work to continue to stabilize the company's financial situation and improve performance while we help inform the debate. To that end we have made significant progress both in rebuilding plant and equipment and maintaining the financial stability of the organization.

During this fiscal year, Amtrak continued to show strong results in a number of important areas. Despite everything that has happened this year, Amtrak will finish FY05 under budget and will set a new ridership record. This is quite remarkable when one keeps in mind the unforeseen Acela service interruption which caused the temporary cessation of all Acela trains earlier this spring. We responded efficiently and safely while integrating other equipment quickly into the timetable so that no measurable impact on NEC ridership occurred. Now we are back to full Acela service and are operating so far this month 92% on time. Just recently, we have had to deal with the indefinite truncation of three of our long-distance trains resulting from the impacts of Hurricane Katrina.

This year, we continued to chip away at the backlog of deferred maintenance for both plant and equipment. In FY06, we expect to continue this type of capital investment - renewal of track, signals, wire, equipment, switches and interlockings - but we will also begin major, multi-year projects to rebuild structures critical to Northeast Corridor operations. These include replacement of the failure prone moveable bridge spans over the Thames and Niantic rivers in Connecticut, replacement of 1930s era cables in the Baltimore tunnels, and major track work on the Harrisburg-Philadelphia line. In fact, at this time next year we expect to have that corridor updated and operating at higher speeds and with additional frequencies. Completion of the bridge and tunnel work is essential if we are to reduce the risk of a failure that would impact all NEC service. These projects are big and involve outside contractors and long lead time in ordering of materials, as well as multi-year funding commitments. But when they are completed, the repaired and rebuilt structures will last a lifetime.

Obviously, the more resources we are able to devote to our capital reinvestment program, the better chances we will have to keep our operating costs under control. The FY06 operating request is slightly lower than previous years and reflects the company's ability

to keep operating costs constant, despite inflation, rising insurance costs and the high cost of fuel. I support the FY06 Senate Appropriations Committee funding level of \$1.45 billion. I want to reinforce for the subcommittee that we have kept our operating costs essentially flat so every additional dollar appropriated has been, or will be used for capital reinvestment.

During the past three years, we have not borrowed any additional funds nor have we assumed any new debt, except for the DOT loan during the summer of 2002, which is being paid back in annual installments.

We have lowered headcount from 25,000 in FY01 to 19,500 --- its current level --- or a reduction of about 20%.

Our deficit per train mile has decreased from \$22 in FY00 to \$13 in FY04.

As I said, ridership has continued to increase. In fact, during the period FY00 to FY04, ridership has grown from 22.5 million to 25.1 million or 11.6%.

Strategic Reform Initiatives

The reform plan contains a detailed set of initiatives, some of which Amtrak will accomplish on its own and others which will require government action. Taken together, we believe that Amtrak's Strategic Reform Initiatives can revitalize intercity rail transportation and encourage competition.

Our proposal advances four essential objectives.

1. Development of passenger rail corridors based on an 80-20 federal-state capital matching program, with states becoming "purchasers" of a variety of competitively bid corridor services.
2. Return of the Northeast Corridor infrastructure to a state of good repair and operational reliability, with all users gradually assuming increased financial responsibility for their share of corridor operating and capital needs.
3. Preservation of our national long distance system, with gradually restructured routes that will over time have to meet minimum financial performance requirements, in some cases requiring state assistance.
4. Finally, the opening of the intercity passenger rail industry to competition and private commercial participation.

Let me break this down -- we have identified three basic sets of reform initiatives to achieve the objectives that I just mentioned. They include, in general terms, structural, operating and legislative changes.

Structural Initiatives

Amtrak generally has a good organizational structure and there are management controls in place which have resulted in cost savings and better management; but there is room for further improvement. We will continue to implement these types of changes and refine those already in place. To build on such improvements, our plan focuses on providing planning, budgeting, accounting and reporting of financial activity and performance along our distinct business lines - infrastructure management, Northeast Corridor rail operations, state corridor operations and long-distance operations. This type of change will improve the financial clarity of our operations.

Operating Initiatives

Operating initiatives identified in our plan highlight a range of actions intended to improve the performance of each business line to provide better service, achieve savings and enhance revenues. Some of the initiatives under consideration include: a review of food and beverage changes, station staffing changes, increased call center efficiencies, service reconfiguration of long distance operations, and competition on state-supported routes. An SRI recommendation already implemented is the establishment of a new 'Customer Services' department to provide organizational focus to accelerate food service reforms.

With regard to the 15 long-distance trains Amtrak operates, unfortunately, this has become the flash-point in the debate over "reform" of passenger rail service. Amtrak is committed to the preservation of national passenger rail service. Many communities served by long-distance trains do lack real transportation choices and rely on these services. While we believe the continued operation of these trains is important to many communities they serve, they also represent the basis for interconnection and future expansion of rail corridors. We will reduce the operating losses on long distance trains through a series of steps outlined in our plan. However, we will not eliminate the need for financial support for long-distance operations. We have recommended the establishment of a phased-in performance improvement program that will couple cost-saving efficiencies with revenue enhancement initiatives, so that over time these trains will achieve financial performance thresholds or be discontinued.

Legislative Initiatives

A lynchpin of this plan is the establishment of a federal matching program appealing enough to attract and accelerate state financial involvement in emerging and existing corridors. Continued development of rail corridors is critical to the future of rail passenger service, and the pace of development will increase with the federal government as a reliable financial partner - the role it has played for almost half a century with highways, transit and aviation. A number of states have already begun developing rail corridors, largely on their own nickel. They have begun to see the benefits of their investments where in one case ridership on corridor trains has grown 22% over the last five years. However, to realize the full potential of intercity passenger rail in addressing

transportation challenges will require a federal match program comparable with other modes.

Returning the NEC infrastructure to a state of good repair is another essential part of our reform proposal. Amtrak owns most of the NEC, is the only end-to-end user of the Corridor and, in terms of train miles operated, is also the majority user. Amtrak NEC trains operate at the highest speeds in North America, and there are still segments of the NEC where Amtrak is the only entity operating trains. Our immediate challenge is to restore the infrastructure to a state of good repair, which we are doing, as detailed in our proposal. Ridership continues to grow along the Northeast Corridor; in the near term we will have to begin planning for additional capacity to meet that ridership demand.

As we explain in our plan, Amtrak welcomes the opportunity to compete in a competitive market. Yet, Amtrak is not always the most efficient provider of rail-related services and we believe there should be alternatives. Key to our plan is the development of a competitive supply industry and multiple service delivery options. Amtrak can take a few essential steps in that direction, but without federal legislative assistance, we will not reach the station. There are serious impediments to competition that need to be addressed if we are to realize a truly competitive environment such as: access rights to rail infrastructure, Railroad Retirement reform, and also Railway Labor Act reform.

I realize that each of these initiatives is controversial, but we believe they are essential if we are to have real reform and true competition. Some of the legislative decisions in this area will be difficult and will encounter predictable resistance from entrenched interests. Yet, I believe it is a debate worth having.

Conclusion

In closing, David Gunn, his management team, my fellow Board members and I look forward to working with you and other stakeholders in the weeks and months ahead as we further develop and implement our plan and move this debate forward. I cannot emphasize to you enough that adequate funding for Amtrak in FY06 will be a critical first step in advancing the objectives of our strategic reform initiatives plan.

We look forward to your questions.